

Message Text

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PAGE 01 BERN 03003 01 OF 02 071535Z

44

ACTION EB-07

INFO OCT-01 AF-08 EUR-12 IO-13 ISO-00 AGR-10 CEA-01

CIAE-00 COME-00 DODE-00 FRB-01 H-02 INR-07 INT-05

L-03 LAB-04 NSAE-00 NSC-05 PA-02 AID-05 CIEP-02 SS-15

STR-04 ITC-01 TRSE-00 USIA-15 PRS-01 SP-02 FEAE-00

OMB-01 /127 W

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FM AMEMBASSY BERN

TO SECSTATE WASHDC 2828

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PRETORIA

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USMISSION GENEVA

USDEL MTN GENEVA

AMCONSUL ZURICH

UNCLAS SECTION 1 OF 2 BERN 3003

PASS TREASURY AND FRB

EO 11652: NA

TAGS: EFIN ECON SZ

SUBJ: SWISS FINANCIAL AND ECONOMIC REPORT: JUNE 29 - JULY 3

1. SUMMARY: FRANC APPRECIATED SLIGHTLY THIS WEEK. SWISS NATIONAL BANK (SNB) PRESIDENT LEUTWILER TOLD MACHINE INDUSTRY OFFICIALS SNB BELIEVES EXPORT INDUSTRIES SOON STRONG ENOUGH SUPPORT APPRECIATED FRANC. ACCORDING JUNE SNB STATEMENT FOREIGN EXCHANGE RESERVES UP BY SF 3,436 MILLION. GOVT'S GNP REAL GROWTH PREDICTION .2 PERCENT; INFLATION 3 PERCENT. FEDERAL COUNCILOR BRUGGER TOLD WATCH INDUSTRY OFFICIALS HE
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PAGE 02 BERN 03003 01 OF 02 071535Z

COULD ENVISAGE CREATION SEMI-PUBLIC CORPORATION TO HELP

FINANCE WATCH INDUSTRY DIVERSIFICATION AND INNOVATION.
FEDERAL COUNCIL DECIDED EXTEND SF 2.5 MILLION ASSISTANCE
TO LEBANON. DROUGHT IN EUROPE HAS AFFECTED SWISS
POTATO AND SUGAR BEET CROPS. RETAIL SALES DOWN IN MAY.

FINANCIAL

FOREIGN EXCHANGE AND GOLD: MARKET MODERATELY ACTIVE. SWISS
FRANC APPRECIATED VERY SLIGHTLY. DOLLAR OPENED MONDAY AT
SF 2.4690 DOWN FROM SF 2.47 THE PREVIOUS WEEK. CLOSED
FRIDAY AT 2.4665. DM ALSO STEADY AROUND DM 100 EQUALS 95.
MARKET ACTIVE FIRST HALF WEEK, CALM LATTER HALF. GOLD MARKET
VOLUME HIGHER THAN USUAL AS PRICE SLIPPED FROM 124. TO 123.
RATES AS FOLLOWS:

	6/28 (OPEN)	7/2 (CLOSE)
SPOT DOLLAR	2.4690	2.4665
FORWARD DISCOUNTS (PCT. P.A.)		
ONE MONTHS	5.02	4.96
2 MONTHS	5.04	4.99
3 MONTHS	5.00	4.87
6 MONTHS	5.03	4.64
12 MONTHS	4.38	4.30
SF/DM	95.76	95.71
GOLD	124.40	123.0

3. SNB POLICY: SNB PRESIDENT LEUTWILER TOLD MACHINE INDUSTRY
SNB WALKS TIGHTROPE BETWEEN INTERVENTION AND EFFORTS MAINTAIN
MONETARY GROWTH TARGETS. SAID SNB INTERVENTION DURING
JUNE, DESPITE CONVERSIONS FOR CAPITAL EXPORT, INCREASED
SNB FOREIGN EXCHANGE HOLDINGS SF 1.7 BILLION. SF 500
MILLION STERILIZED FINANCING NEW CONEDERATION LOAN ISSUE.
SNB HAS ORDERED COMMERCIAL BANKS INCREASE THEIR RESERVES
AGAINST FOREIGN OBLIGATIONS FROM 10 PERCENT TO 65 PERCENT
EFFECTIVE JULY 26. POINTED OUT MONEY SUPPLY EXPANDING
AT RATE SURPASSING THE TARGET OF A 6 PERCENT ANNUAL RATE;
DOMESTIC CREDIT ROSE 6.3 PERCENT IN APRIL; CURRENCY IN
CIRCULATION EXPANDED IN MAY. LEUTWILER VIEWED TREND AS
SURE SIGN OF INCREASED CONSUMPTION PRECURSOR OF GENERAL
ECONOMIC IMPROVEMENT TOGETHER WITH STRENGTH EXPORTS THIS
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PAGE 03 BERN 03003 01 OF 02 071535Z

YEAR. ASSERTED INCREASES INDUSTRIAL PRODUCTION SHOW
RECOVERY UNDERWAY. STRESSED SNB BELIEVES EXPORT INDUSTRIES
SOON STRONG ENOUGH SUPPORT APPRECIATED FRANC, BUT MONETARY
POLICY REMAINS KEYED EXPORT PERFORMANCE AS WELL AS LOW
RATE INFLATION.

4. MONEY AND CAPITAL MARKETS:. HIGH LIQUIDITY AVAILABLE IN
SWISS MONEY MARKET AND ASSISTANCE BY SNB ALLOWED COMMERCIAL

BANKS PASS END OF QUARTER EASILY. SNB OFFERED BANKS
UNLIMITED SHORT-TERM DOLLAR SWAPS AT END MARCH. SWAPS
TOTALLED OVER SF 2.3 BILLION; DISCOUNTS AND OTHER CREDITS
BROUGHT SNB'S TOTAL ASSISTANCE TO ABOUT SF 3.9 BILLION.
CALL MONEY RATE JULY 2 UNCHANGED AT 0.25 PERCENT. STOCK
MARKET CONTINUED IMPROVE IN SELECTED STOCKS, ESPECIALLY BALLY,
AND SKA INDEX (1969 EQUALS 100) UP FROM 206.7 THE PREVIOUS
WEEK TO 209.3 ON JULY 2. MEDIAN YIELD ON CONFEDERATION
BONDS INCREASED TO 5.16 FROM 5.12 PREVIOUS WEEK.

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PAGE 01 BERN 03003 02 OF 02 071611Z

44

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UNCLAS SECTION 2 OF 2 BERN 3003

PASS TREASURY AND FRB

5. SNB JUNE STATEMENT ACCOUNT: MAJOR CHANGES IN SNB'S
STATEMENT SHOWN BELOW. GOLD STOCK ROSE BY SF 4.6 MILLION

DUE PURCHASE ABOUT 995 KILOGRAMS GOLD AT IMF JUNE AUCTION, VALUED BY SNB AT SF 4,595.74 PER KILOGRAM FINE GOLD. FOREIGN EXCHANGE RESERVES ROSE 27 PERCENT IN JUNE TO 52 PERCENT OVER JUNE 1975. LIQUID STATE OF BANKING SYSTEM SHOWN BY HIGH LEVEL GIRO BALANCES (CLEARING ACCOUNTS OF BANKS, TRADE AND INDUSTRY) WHICH ROSE 59 PERCENT IN JUNE AND WERE 23 PERCENT ABOVE END-JUNE 1975. LOMBARD CREDITS (SHORT-TERM ADVANCES TO BANKS FOR MAXIMUM THREE-WEEKS) INCREASED 250 PERCENT DURING JUNE. SNB BALANCE SHEET TOTALS UP UNCLASSIFIED

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PAGE 02 BERN 03003 02 OF 02 071611Z

13 PERCENT OVER JUNE 1975.

JUNE 30 CHANGE FROM MAY 31
(MILLIONS OF SWISS FRANCS)

ASSETS

GOLD	11,897	UP	5
FOREIGN EXCHANGE	16,073	UP	3,436
ROOSA BONDS	5,403	-	-
DISCOUNTED PAPER	272	UP	3
LOMBARD LOANS	223	UP	159
OTHER	1,341	UP	311

LIABILITIES

NOTES IN CIRCULATION	18,078	UP	167
GIRO ACCOUNTS	10,321	UP	3,847
RESERVES (FOREIGN LIABILITIES)	231	UP	13
OTHER	YNTUO	DOWN	113
BALANCE SHEET TOTALS	35,209	UP	3,914

ECONOMIC

6. ECONOMIC OUTLOOK: ACCORDING LATEST OFFICIAL ESTIMATES REAL GNP TO GROW 1.5 TO 2 PERCENT 1976; 2 TO 3 PERCENT 1977 AVERAGE INFLATION 1976 EXPECTED TO BE 3 PERCENT; LAST YEAR'S FIGURE 7 PERCENT. UNEMPLOYMENT EXPECTED GO DOWN FURTHER 1977; INFLATION FORECAST FOR 1977 3.5-4 PERCENT. EXPORTS EXPECTED GROW 5 PERCENT IN REAL TERMS THIS YEAR. IN STUDY RELEASED BY SWISS BANK CORPORATION, ECONOMIC GROWTH OF 3 PERCENT FORECAST FOR 1976 BASED ON MORE OPTIMISTIC EXPORT PROJECTIONS AND PUBLIC SECTOR STIMULUS. INVESTMENT EXPECTED INCREASE BY END OF YEAR AND FOR FOLLOWING TWO YEARS. INTEREST RATES NOT EXPECTED TO RISE UNTIL 1977. HOWEVER, ACCORDING SBC, BY 1978 MAY BE SLOWER GROWTH, INCREASED INFLATION.

7. WATCH INDUSTRY: WATCH INDUSTRY OFFICIALS CALLED ON GOVT TAKE COMMERCIAL, MONETARY MEASURES IN SUPPORT WATCH EXPORTS. IN REPLY FEDERAL COUNCILOR BRUGGER SAID WATCH INDUSTRY MUST FIND SOLUTIONS IN PRIVATE MARKET

WHICH IS TRADITIONAL SOURCE STRENGTH. HOWEVER, SAID HE
COULD ENVISAGE ESTABLISHMENT OF SEMI-PUBLIC CORPORATION
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PAGE 03 BERN 03003 02 OF 02 071611Z

TO HELP FINANCE INVESTMENTS FOR DIVERSIFICATION AND INNOVATION.

8. FOREIGN ASSISTANCE: THE FEDERAL COUNCIL DECIDED EXTEND
EMERGENCY ASSISTANCE TO VICTIMS OF CONFLICT IN LEBANON IN
FORM OF CREDITS AMOUNTING TO SF 2.5 MILLION.
FEDERAL COUNCIL HAS ALSO DECIDED MAKE CONTRIBUTION OF
65 MILLION TO DOLLARS 100 MILLION EFTA INDUSTRIAL
DEVELOPMENT FUND, TO BE USED BY PORTUGAL.

9. DROUGHT: RAINFALL DURING JUNE ABOUT 3.5 PERCENT OF NORMAL.
GOVT STUDYING SITUATION AND WILL PROVIDE AID TO FARMERS.
ADDITIONAL 30,000 TO 50,000 CATTLE MAY BE SLAUGHTERED THIS
YEAR DUE TO DROUGHT AND SUPPLEMENTARY FEEDING OF CATTLE
MAY BE REQUIRED THIS WINTER. THIS MAY RELIEVE PRESENT
SURPLUS MILK PRODUCTION PROBLEM. POTATO CROP HAS BEEN
DECLARED TOTAL LOSS; SUGAR BEETS THREATENED AS WELL UNLESS
DROUGHT ENDS SOON.

10. ECONOMIC INDICATORS: RETAIL SALES, UP SLIGHTLY FOR FIRST
TIME IN MONTHS DURING APRIL, FELL 5.6 PERCENT DURING MAY.
ONLY INCREASE WAS IN AUTOMOBILES AND FUELS. FIRST HALF
OF 1976 SAW 539 PETITIONS FOR BANKRUPTCIES FILED COMPARED
TO 424 IN FIRST HALF 1975. DURING MAY, THE NUMBER OF OVER-
NIGHT STAYS AT HOTELS DECREASED BY 7 PERCENT FROM THE
LEVEL IN MAY 1975. THERE WAS 12 PERCENT DROP IN OVERNIGHT
STAYS BY FOREIGNERS. NUMBER OF OVERNIGHT STAYS SWISS
WAS STEADY. FOR FIRST FIVE MONTHS OF 1976, OVERNIGHT
STAYS IN HOTELS WERE DOWN 4 PERCENT FROM SAME PERIOD LAST YEAR.
ESSO, SHELL SWITZERLAND ANNOUNCED GASOLINE PRICE DECREASE
OF 1 CENTIME PER LITER EFFECTIVE JUNE 28.

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PAGE 04 BERN 03003 02 OF 02 071611Z

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